

DOE Working Capital Fund WCF Cost Structure Analysis, FY 2005

Introduction

In response to the 1997 Inspector General report, Fund management agreed to provide a report to the Board that identifies Working Capital Fund business costs not now reflected in the Working Capital Fund pricing structure ... [including] the hypothetical impacts on business line viability of including such costs in the Fund pricing structure.¹ The first report was transmitted to the Board on June 30, 1998. This current report updates the information in the previous seven reports and summarizes areas of change.

Since the creation of the Working Capital Fund, there have been numerous changes in the structure and offerings of the Fund businesses:

- The Contract Audit and Executive Information System businesses were eliminated in FY 1998 and FY 1999, respectively;
- The Payroll business was added in FY 2000.
- The Supply business was outsourced in FY 2001;
- In FY 2001 the Board approved the addition of two new businesses, the Online Learning Center and CHRIS;
- Beginning in FY 2003, the Copy Business Line introduced document imaging and Optical Character Recognition (OPR) services; and
- For FY 2004, the Board approved the addition of a new Project Management Career Development Program business line, expansion of the Contract Closeout Business Line to include purchase card surveillance; expansion of the Online Learning Center Business, which was renamed to Corporate Training Services; and expansion of the Telephone business line to include cell phones and other devices.
- For FY 2006 and beyond, the impact of A-76 studies will reduce the number of federal staff in the WCF businesses, allowing businesses to collect revenue to offset these costs and reducing the level of subsidies from the parent organizations.

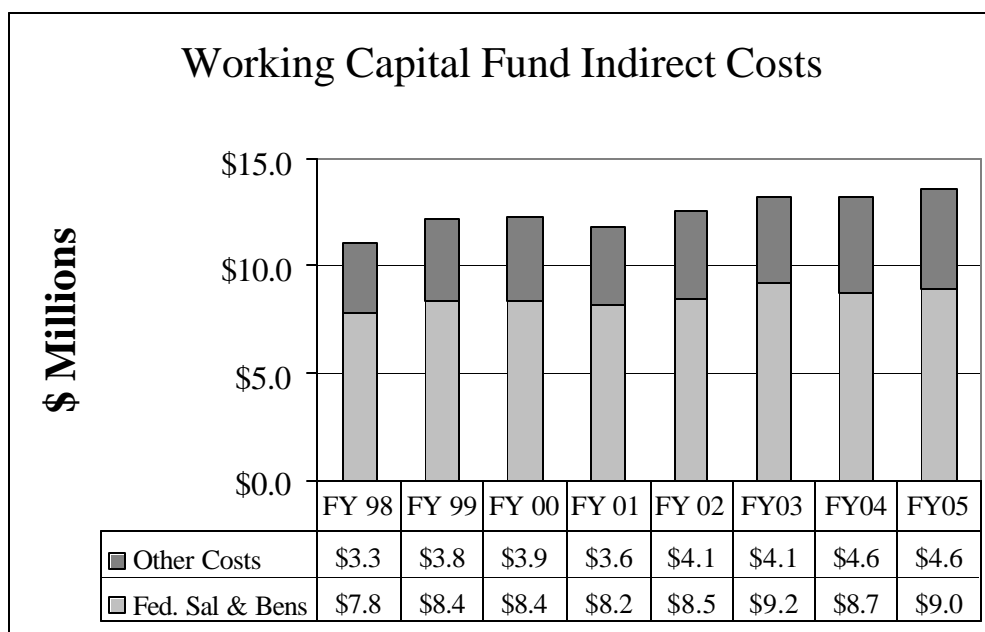
Despite these changes, the Indirect Costs² related to the Fund have remained fairly constant in relation to revenues, representing 14-15% of the amounts being charged to customers through approved pricing policies. That is, on average, prices charged to customers would need to be 14-15% higher if Federal employee salaries and related costs were included in the Fund. These Indirect Costs, estimated at \$13.6 million for FY 2005, are funded in the budgets of the Office of Management, Budget and Evaluation/Chief Financial Officer and the Chief Information Officer. Figure A demonstrates the impact of the subsidies on business line cost structure (except Building).

¹ Reference: Attachment to January 13, 1998 memorandum from the Assistant Secretary for Human Resources and Administration to the Acting Inspector General.

² The term *indirect costs* as used in this paper refers to costs that are not recognized in the Fund because of regulatory considerations. In fact, these categories of costs would normally be consider *direct* in most financial contexts.

Background

- Federal Accounting Standards Advisory Board (FASAB) guidelines for managerial cost accounting require that "all costs be recognized in developing the price at which goods and services would be sold to other entities [within the government]."
- However, since FY 1997, the House Energy and Water Development Appropriations Committee report has directed the Department not to include the costs of Federal employee salaries and benefits in the cost structures of the Fund business lines.
- The 1997 WCF report prepared by the DOE Inspector General also raised the issue of indirect costs, and management agreed to prepare an analysis of such costs by June 30, 1998 and to advise the Board of likely impacts on business line viability. Further, the 1998 WCF report of the Inspector General noted that the Office of Management Budget and Evaluation (then the Office of Human Resources and Administration) spent more for Fund services than other Headquarters customers. This is linked to the question of OMBE subsidy of Fund operations, since a portion of the OMBE payment into the Fund is associated with the use by one WCF business of services from other WCF businesses.
- While the policies of the House Appropriations Committee and DOE management preclude the inclusion of DOE Federal salaries and certain related costs in the Fund pricing structure, there remains the question of whether such exclusion may have a material impact on customer and business line behavior. This analytical question, rather than the policy question, is the subject of this report.
- This 2005 report concludes that the costs to the business lines would increase by approximately \$13.6 million or 14% if the cost structure was expanded to include Federal salaries (\$9.0 million) and other costs (\$4.6 million).



Analytic Approach

The focus of the 2005 analysis was to validate the estimates provided with the 2004 report. Space allocation estimates that affect the Building Occupancy charges associated with WCF businesses were also updated. The data are presented on the basis of annualized FY 2005 costs as they were estimated at the time of the issuance of the May 2005 bill.

Staffing Levels

It is estimated that 103 Federal staff are directly engaged in the operation of the Fund businesses. Table I provides these estimates by business line in comparison to estimates in previous reports, and also includes FY 2005 salary and benefits estimates. It is important that this baseline is established so as to allow comparisons next year and beyond with post A-76 business line structures.

Table I: Federal Employees Engaged in Delivering WCF Services by Business Line, 1998 - 2005.									FY 2005 Salaries & Benefits (\$000)
Business Line	Federal Staff members								
	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	
Telephones	3	4	4	3	3	3	3	2	\$240
Networking	2	1	1	2	2	2	2	2	\$193
Desktop	3	3	3	3	3	3	5	4	\$407
Building Occupancy	70	69	69	71	68	61	53	51	\$4,113
Supplies	6	7	7	2	0	0	0	0	\$0
Copiers	2	3	3	3	2	3	3	2	\$208
Mail Services	2	2	2	2	3	2	2	2	\$174
Printing & Graphics	25	24	23	22	23	14	12	9	\$695
Procurement Management	0	0	0	2	3	3	4	3	\$374
Payroll	7	17	11	15	12	11	11	9	\$704
Corporate Training Services (CTS)	NA	NA	NA	NA	3	5	4	7	\$640
CHRIS	NA	NA	NA	NA	3	11	12	8	\$654
Project Management Career Development Program (PMCDP)	NA	NA	NA	NA	NA	NA	2	2	\$281
WCF Management Activity	NA	2	2	2	2	3	3	2	\$337
Total	120	130	125	127	127	121	115	103	\$9,020
Management Budget & Evaluation	NA	NA	115	119	119	113	105	95	\$8,180
Chief Information Officer	NA	NA	11	8	8	8	10	8	\$840

Inter-Business Transactions

Working Capital Fund businesses consume goods and services that are provided by other Fund businesses, but heretofore only a small proportion of these charges are made to the consuming business. For the most part, Management Budget and Evaluation and the Chief Information Office have paid these other related expenses as though they were derived from non-WCF activities. The 1998 analysis estimated these costs at approximately \$3.3 million. These costs have grown incrementally each year to equal \$4.6 million in FY 2005, unchanged from FY 2004.

Table II: FY 2005 Inter-Business Costs (\$000)

Business Line (Consumer)	Building Occupancy	Other	Total
Telephones	\$ 180	\$ 28	\$ 208
Networking	\$ 859	\$ 21	\$ 880
Desktop	\$ 187	\$ 49	\$ 236
Building Occupancy	\$ 678	\$ 344	\$ 1,022
Supplies	\$ 226	\$ 43	\$ 269
Copiers	\$ 190	\$ 15	\$ 205
Mail Service	\$ 209	\$ 13	\$ 222
Printing & Graphics	\$ 820	\$ 61	\$ 881
Procurement Management	\$ 73	\$ 20	\$ 93
Payroll	\$ 77	\$ 63	\$ 140
Corporate Training Services (CTS)	\$ 54	\$ 44	\$ 98
CHRIS	\$ 77	\$ 87	\$ 164
Project Management Career Development Program (PMCDP)	\$ 12	\$ 46	\$ 58
WCF Management Activity	\$ 59	\$ 15	\$ 74
Total	\$ 3,701	\$ 850	\$ 4,551

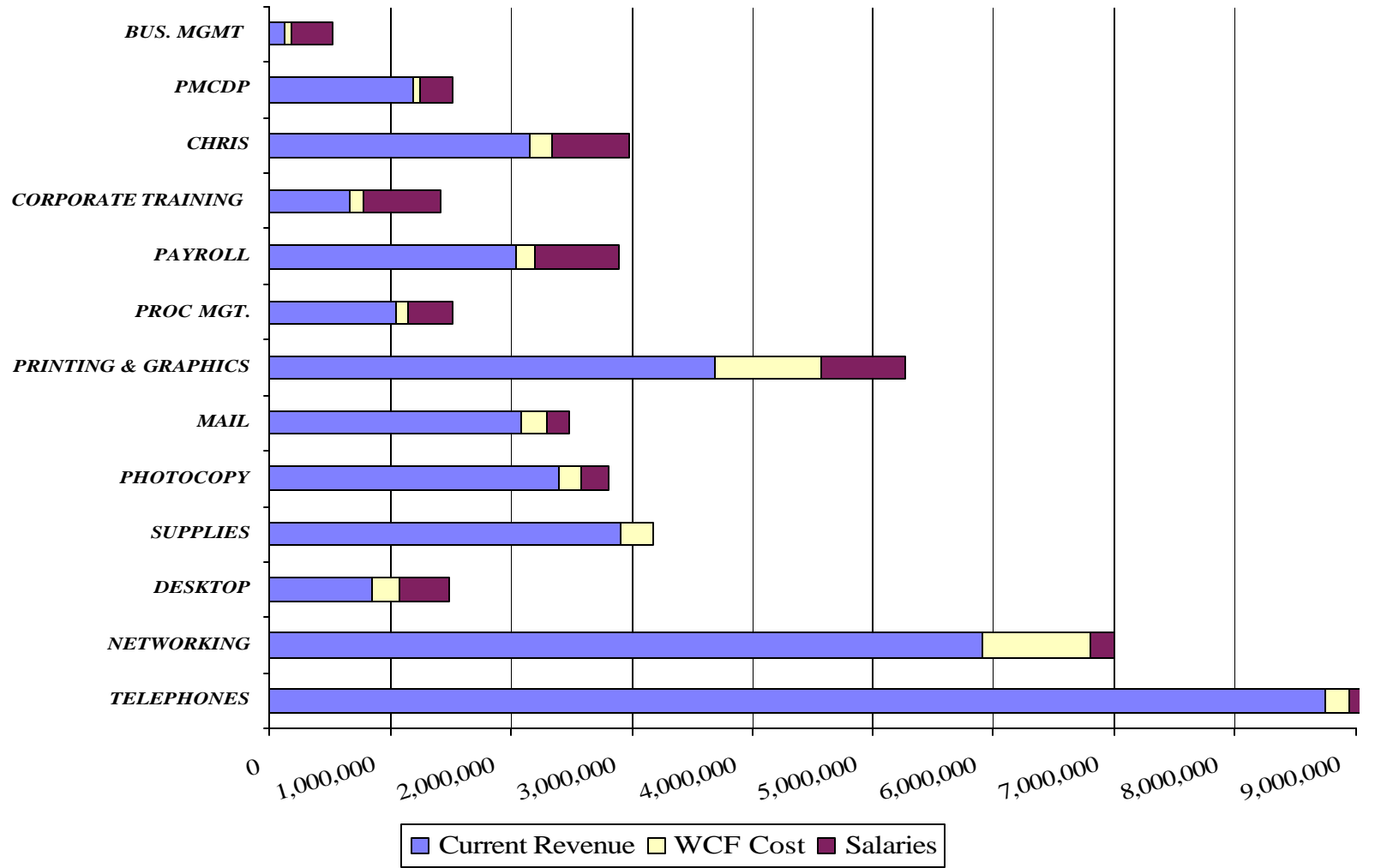
In this report, we have not attempted to quantify further OMBE or CIO costs, such as training, travel or workstation charges associated with the Excite operation that might also be associated with the Federal employees performing WCF services.

Overall Cost Impacts on Businesses

Overall, we estimate that including the Federal salaries and inter-business costs in the Fund would expand Fund costs by \$13.6 million. As shown in Table II below, the subsidy rate for Building Occupancy of 8% tends to bring the overall average down considerably. Without the Building Occupancy business, the average subsidy rate is estimated at 25%. Desktop and Corporate Training Services, with their higher use of Federal staff relative to contractors, ranking highest again in the implied subsidy rates.

Table III: 2005 Subsidies by Business Line		
Business Line (Consumer)	Total Subsidy (\$000)	Percent of Current Billings
FUND MGR	\$ 411	0%
PHONE	\$ 448	5%
BLDG OCC	\$ 5,134	8%
SUPPLIES	\$ 269	9%
<i>Average for All Businesses</i>		14%
COPY	\$ 414	17%
NETWORK	\$ 1,073	18%
MAIL	\$ 396	19%
<i>Average for Businesses other than Building Occupancy</i>		25%
PMCDP	\$ 339	28%
CHRIS	\$ 818	38%
PAYROLL	\$ 845	41%
PRINTING & GRAPHICS	\$ 1,576	43%
PROCURMNT MGT.	\$ 467	44%
DESKTOP	\$ 642	75%
CORPORATE TRANING SERVICES	\$ 738	109%

Figure A: WCF Cost Subsidy, 2005



July, 2005

**WCF SUBSIDIZED COSTS BY BUSINESS LINE
DIRECT AND INDIRECT
FY 2005**

Business Line Consumer

Business Line Consumer																			May 2005 Bill	
	PHONE	NETWORK	DESKTOP	BLDG OCC	SUPPLIES	COPY	MAIL	PRINTING & GRAPHICS	PROCURMNT MGT.	PAYROLL	CORPORATE TRAINING SERVICES	CHRIS	PMCDP	FUND MGR	Sub-Total WCF CIO	Sub-Total WCF ME	Non-WCF ME	TOTAL CIO	TOTAL ME	
Estimated Subsidized Cost Incurred																				
TELEPHONE EXP	9,743	7,307	17,050	89,727	10,000	4,047	3,519	15,834	5,278	16,538	11,436	14,075	3,519	4,047	34,101	178,018	903,982	531,000	1,082,000	
NETWORKING EXP	5,138	3,853	8,991	72,976	10,000	3,291	2,862	12,878	4,293	13,450	9,301	11,447	2,862	3,291	17,982	146,650	733,350	280,000	880,000	
DESKTOP EXP	4,642	3,482	8,124	10,615	8,000	479	416	1,873	624	1,956	1,353	1,665	416	479	16,248	27,876	100,124	253,000	128,000	
BUILDING OCCUPANCY EXP	180,000	859,000	187,000	678,000	226,000	190,000	209,000	820,000	73,000	77,000	54,000	77,000	12,000	59,000	1,226,000	2,475,000	7,644,000	3,377,000	10,119,000	
SUPPLIES EXP	2,550	1,913	4,463	35,907	0	1,619	1,408	6,337	2,112	6,618	4,576	5,633	1,408	1,619	8,927	67,238	365,762	139,000	433,000	
PHOTOCOPY EXP	1,468	1,101	2,569	36,073	0	1,627	1,415	6,366	2,122	6,649	4,598	5,659	1,415	1,627	5,138	67,549	367,451	80,000	435,000	
MAIL SERVICE EXP	1,138	853	1,991	37,649	15,000	1,698	1,476	6,644	2,215	6,939	4,798	5,906	1,476	1,698	3,982	85,499	368,501	62,000	454,000	
PRINTING EXP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	541,000	37,000	541,000	
CLOSEOUT EXP	349	261	610	7,629	0	344	299	1,346	449	1,406	972	1,197	299	344	1,220	14,286	77,714	19,000	92,000	
PAYROLL EXP	367	275	642	9,620	0	434	377	1,698	566	1,773	1,226	1,509	377	434	1,284	18,013	97,987	20,000	116,000	
CTC EXP	202	151	353	33,171	0	1,496	1,301	5,854	1,951	6,114	4,228	5,203	1,301	1,496	706	62,114	337,886	11,000	400,000	
CHRIS EXP	2,275	1,706	3,982	10,283	0	464	403	1,815	605	1,895	1,311	1,613	403	464	7,963	19,255	104,745	22,000	124,000	
PMCDP EXP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	31,000	31,000	31,000	
NETL EXP												32,828	32,828		0	65,656	0		0	
SUBTOTAL	207,872	879,904	235,775	1,021,649	269,000	205,498	222,476	880,644	93,215	140,339	97,798	163,734	58,304	74,498	1,323,550	3,227,155	11,607,845	4,862,000	14,835,000	
FED. SALARIES (1)	239,834	193,345	406,506	4,112,565	0	208,235	173,680	695,352	373,830	704,365	639,718	654,460	280,925	336,795	839,685	8,179,925	n/a	n/a	n/a	
SUBTOTAL	447,706	1,073,249	642,281	5,134,214	269,000	413,733	396,156	1,575,996	467,045	844,704	737,516	818,194	339,229	411,293	2,163,235	11,407,080	n/a	n/a	n/a	
EQUIP. REPLACEMENT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	n/a	n/a	n/a	
TOTAL	447,706	1,073,249	642,281	5,134,214	269,000	413,733	396,156	1,575,996	467,045	844,704	737,516	818,194	339,229	411,293	2,163,235	11,407,080	n/a	n/a	n/a	
BUSINESS LINE REVENUES (2)	8,739,000	5,920,000	852,000	66,065,000	2,910,000	2,394,000	2,087,000	3,695,000	1,053,000	2,056,000	675,000	2,170,000	1,192,000	120,000	15,511,000	84,417,000	n/a	n/a	n/a	
% SUBSIDIZED COST (3)	5.1	18.1	75.4	7.8	9.2	17.3	19.0	42.7	44.4	41.1	109.3	37.7	28.5	0	13.9	13.5	n/a	n/a	n/a	
FEDERAL STAFFING (6/05)	2.0	1.5	3.5	51	0	2.3	2	9	3	9.4	6.5	8	2	2.3	7	96	520	109	615	
CONTRACT STAFFING (6/05)	44	15	1	23	8	6	45	8	12	7	2	2	3	1	60	117				
% OF TOTAL CIO/ME ON BOARD	1.8%	1.4%	3.2%	8.3%	0.0%	0.4%	0.3%	1.5%	0.5%	1.5%	1%	1%	0.3%	0.4%	6%	15.5%	84.5%	100%	100%	
BLDG SQ FT(10/05) (4)	4,645	13,105	5,060	21,840	5,730	4,190	5,425	15,979	1,641	3,825	3,825	1,150	250	1,235	22,810	65,090	n/a		n/a	
BLDG COST (10/05)	\$ 180,000	\$ 859,000	\$ 187,000	\$ 678,000	\$ 226,000	\$ 190,000	\$ 209,000	\$ 820,000	\$ 73,000	\$ 77,000	\$ 54,000	\$ 77,000	\$ 12,000	\$ 59,000	\$ 1,226,000	\$ 2,475,000				

AVERAGE DIRECT RENT COST PER SF - FY05

IT rates are based on % of total CIO population.

FORS 34.59
GTN 21.65
LENFANT 43.07
CLOVERLEAF 22.08
270 CORPORATE 24.50

oth than bldg

tot ind 13,570,316
tot dir 99,928,000
% 14%
tot sal 9,019,610
tot oth 4,550,706

(1) Includes estimates for salaries, benefits, overtime, and awards. Does not include 9 Administrative Managers.

(2) Reflects Annualized Costs as of May 2005

(3) This represents the percentage increase above current revenues that would be necessary to recover the amount of subsidized costs, including salaries, appearing on the Total Line above "Business Line Revenues". Calculated as:
Total Subsidized Cost / Business Line Revenues X 100.

(4) FY 04 space utilization and cost reported by Building Occupancy as of 6/16/05.